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INDUSTRY IN RHODESIA

A TWO-DAY SYMPOSIUM

PART ONE

PAPERS **Page**

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PAPER No. 2

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Paper Number Two

AN INDUSTRIALISTS' VIEW OF THE DETERMINANTS REQUIRED FOR GROWTH OF SECONDARY INDUSTRY IN RHODESIA

N. R. BERTRAM, C.M.G., M.B.E.

For purposes of this paper I think I am on the safest grounds (and certainly only statistically reliable) if I regard secondary industry as synonymous with manufacturing industry in terms of the United Nations I.S.I.C. classification which is generally followed by the Central Statistical Office. The definition is a pretty wide one which, as Osborn has pointed out (Rhodesian Journal of Economics, December, 1968) and no doubt others will stress during the course of this symposium, does less than justice to the contribution of the primary producers; to attempt to narrow it, however, would influence my argument in only one respect, that is that it would perhaps require me to pay more than passing attention to the location of industry in relation to the source of its raw material. As it is, I would prefer to leave this issue aside, and to premise that the influences and the inhibitions governing the growth of manufacturing industry are generally those applicable to the footloose industries.

The general pattern of development of manufacturing industry in Rhodesia has changed little over the years. Pride of place from the point of view of gross output goes to the food processing industries which in 1966 accounted for some 25% of manufacturing output. Next in importance for a long while were textiles and clothing, which in that year accounted for approximately 15%, but in recent years there has been rapid development in the metal processing and engineering industries and in the chemical and petroleum products group, although, of ourse, the latter has been since 1966 the victim of sanctions.

Although in many instances the increase in volume appears to have been less than the increase in turnover, suggesting greater unit profitability, the difficult circumstances of the last few years must affect the validity of any comparison. What is certain is that expansion has more often than not involved higher costs for established industry or the entry into the field of new manufacturing units operating on a more marginal basis than the older concerns.

The predominant part which the production of non-durable consumer goods plays in the manufacturing economy is obvious and this, of course, is in keeping with traditional lines of development from the pioneer stage.

Many of these industries are there to cater solely for home demand and are not export oriented. It follows that the limit of their growth is set by the spending capacity of the local population and only as that is expanded through increased wages and additional employment opportunities can expansion of domestic consumer based industries be expected.

Market and Profit Potential

In actual fact, given reasonable assurance of political stability, market and profit potential will be the primary consideration of the potential industrialist. Whatever he may do once he has established himself to soothe the naggings of a social conscience is inevitably conditioned by the fact that so called enlightenment is simply a qualification of and not the motivator behind self interest. This applies to the one man business no less than to the joint stock company, and it can be of more than passing significance in the case of foreign controlled companies whose central directorate is only remotely concerned with the local scene and tends to measure success solely by the percentage return on capital investment. Your local director is only too often caught between the devil of his overseas shareholders and the deep blue sea of local conditions, and sooner or later if there is no reconciliation he may be subjected to authoritarian pressures which militate against the expansion of his business.

In making this observation I do not intend to decry the value of an influx of foreign capital. In fact, since Rhodesia cannot be expected for many years to generate enough domestic capital to meet her development needs, investment from external sources is an essential requirement of economic growth. However, a rather delicate balance has to be struck between the extraneous influence which the foreign investor can exert upon operations in the country and the advantages which flow from having access to the financial resources and the technical skills and knowledge of the parent companies.

This is a problem which seems recently to have been very much in the minds of the South Africans who have secured the advantage of a comparatively high degree of local industrial sophistication. The answer quite obviously lies in a marriage between external and domestic investment. One would accordingly like to see more local equity passing into Rhodesian hands. To the extent to which this is inhibited whether by reluctance to relinquish control or whether by official action, there is room for disinclination to exploit the full potential of local industry.

Market Size

Since markets and profitability constitute the prime determinants of manufacturing growth the potential industrialist needs to be assured that he can produce at a cost which will enable him to offer the finished article to potential buyers at a price they will be willing to pay. Too often this is where the rub comes. The unit cost of 5 million articles produced in a particular factory must as a rule be lower than the cost in a factory with an output of only 50,000, but only a handful of our factories can claim unit sales running into millions. Those that do are producers of widely used small consumer products and do not as a general rule represent heavy industry such as is essential to continuing development.

Even though in this respect we are better situated than most of the countries of Africa, it will be appreciated that a per capita income of £80 is not a very encouraging allurement to the potential investor in manufacturing. It does, however, become attractive when he sees it as a cypher in a steady upward trend. The evidence of such a trend in the past has been responsible for the establishment of much of our industry. Not only local investors, mostly small but some quite sizeable, but also more important foreign groups, particularly British and South African, saw the desirability of getting in on the ground floor of an expanding economy. In most cases the gamble has come off and industries which fifteen years ago were struggling now have a sound profit record. This is a trend which will have to be resumed and reinforced in the future.

While on the subject of markets, I am bound to say that I believe that in many quarters there is a misconception of the extent to which manufacturing industry can develop through export. The hard fact of the matter, regardless of the impact of sanctions, is that consumer wants throughout the world differ only in the degree of sophistication. It follows, therefore, that each country's industry is directed to satisfying the same needs. We make the same sort of thing as South Africa does on a larger scale. Similarly, since the destruction of the Federal free trade area both Zambia and Malawi have set out to emulate Rhodesian experience by producing the type of goods which they previously bought from Rhodesian and South African factories. Except where the basis is bounteous primary material the export market for manufactured goods, is, therefore, very limited. Industry in assessing sales profitability has willy nilly to look to the domestic market for by far the greater part of its sales.

Import Substitution

It is appropriate at this point to remark on the fact that an undue proportion of more recent manufacturing development is represented by import substitution industries which have taken advantage of a rigid system of import control. These industries are naturally directed to satisfying domestic and not export demand. There can be no doubt that given circumstances of freer international competition many of them will find themselves in difficulties.

I suggest that in this context we are likely to have to face up to a number of inhibiting factors. First and foremost will be the necessity to ensure that the industries in question are not protected to the prejudice of Rhodesia's export potential. However, even before we reach that stage we will find ourselves, if we have not already done so, at the point at which manufacturing growth can be found to be making an undue call upon our import requirements. This is a seeming paradox so well known as to need little elaboration but it does point to the need for an awareness of the fact that secondary industry is most efficiently developed during a period of economic forward surge, in which South Africa is an outstanding example.

After markets the most important determinant is probably labour. Our problem here is not one of brawn but of brain. Not only do we need trained skills, but of equal importance is the need for the inculcation of industrial aptitudes at all levels on the factory floor. This too is a characteristic situation prior to economic take-off. To resolve it will probably mean another generation of urbanisation and education. At the higher levels we have to push on with more energetic schemes of technical and trade training and even then we will I believe still be in desperate need of technical advice and know-how from the more highly developed industrial economies.

Government's Role

We come finally to the position of Government and public authorities. In general I believe that they have done their task very well in promoting infra-structural development in advance of industrial requirements. Although it is possible to point to local deficiencies industry generally has little to complain of in such matters as transport services, communications, power and water supplies. One would, however, like to be assured that this situation will continue and that there is sufficient leeway to take care of sudden surges which are not beyond the bounds of possibility.

One is less happy when looking at housing. In particular African housing, or the lack of it, is an inhibiting factor not only to the establishment of industry but also to its efficient operation. Despite all the words that have been said and all the schemes that have been propounded, the problem seems to grow in complexity and intractability. Suffice it to say that responsibility must be recognised by both the housing authorities and the employers. The authorities have to ensure that the cost of housing is within the rental capacity of the tenant, while (of even greater importance) employers have to acknowledge wage standards which are compatible with an appropriate standard of accommodation. I have little patience with those of my industrial colleagues who contend that their progress is being inhibited by rising labour costs. The truth is that over industry as a whole only 8% of gross production is paid out as African wages.

It will I am sure please my Treasury friends to know that I have heard very few manufacturers complain about taxation inhibiting or stultifying their enterprise. This does not mean that they would not welcome, for example, more generous investment allowances in the same way as they would welcome lower rates of tax, both company and personal, but the present structure cannot sincerely be claimed to be detrimental to industrial development. What is serious, however, is the fact that more liberal personal taxation policies applying elsewhere, as highlighted in the recent South African budget, multiply our own difficulties in attracting and retaining skilled executive and other personnel.

Apart from these matters the principal role of Government in promoting manufacturing growth must rema n, as ARnI has contended, that of assuring efficient industry against disruptive competition from external sources.

Disruptive competition, be it noted, can be attributed to many causes other than dumping. Local industries are obviously in danger of disruption when they find themselves having to face determined competition at prices which, whether owing to economy of scale, advantageous raw materials, marginal labour costs or any other cause, threaten the viability of the local price structure.

The severely limited market potential to which I have already referred also makes it imperative that full use is made of capital and plant already established in the country. This may well involve Government control on the establishment of new ventures.

The difficulty that I have found myself up against with this paper is that we are working today under circumstances of unreality which do not assist meaningful comment. We need to think seriously on whether we have not arrived at a situation where industry is in danger of exceeding, and in certain cases may already have exceeded, its natural determinants. The effect cannot fail to be unhealthy not only consumer price wise but also as regards the balance of payments and it must inevitably result in considerable distress when the time comes to modify the closed economy.

DISCUSSION ON PAPER TWO

Mr. Girdlestone referred to research on industrial growth in Rhodesia carried carried out by Mr. D. S. Pearson. One of the points to emerge from the Pearson study was that Rhodesia's large companies—those which one would expect to provide the lead in any form of research—are primarily foreign controlled or related to foreign control in one way or another. These large companies have far less need for capital in the local market and it is these companies too which provide local directors with their headaches. The 1966 Census of Industrial Production showed clearly just how important these large concerns are—four per cent of these concerns in number were responsible for more than 50 per cent of the gross output of industry. It seemed obvious that in any industrial advance these industries would have set the pace. However, these industries were not necessarily dependent upon local capital funds whereas smaller concerns were.

It was against this background that he asked Mr. Bertram to elaborate on his suggestion that there should be a marriage between external and local investment.

Mr. Bertram replied that where the marriages had been successfully achieved, the initiative as a general rule had come from the parent company itself. The parent company had appreciated the political importance of identifying itself and its enterprise more fully with the people of the country. That was the sort of propaganda and "missionary job" that had to be done before there could be any move at all. Mr. Bertram re-iterated the importance of the considerable extent to which this marriage between foreign investment and domestic capital had taken place in South Africa over the last few years. This had been done with the assistance of the high generation of capital in South Africa itself and with the development in South Africa of local know-how and techniques.

Mr. Rule commented on the difficulties involved in either attracting or retaining foreign skilled labour. He said he thought that the answer in Rhodesia was to make better use of our own human resources, and also make better use of the imported skills. Mr. Bertram had referred to the influence of the tax system—in comparison specifically with that of South Africa—it might be difficult to attract skilled labour or retain it in Rhodesia. Mr. Rule said that all Rhodesia could do to counter this situation was to redistribute the burden of taxation—in such a way as to make the country more attractive to the high grade executive. This meant shifting the burden to the lower paid element of the community. This, Mr. Rule thought, would tend to depress the rate of growth of the mass market within the country—the market upon which Mr. Bertram had rightly laid great emphasis as the main determinant of industrial expansion. Mr. Rule asked for Mr. Bertram's comments.

Mr. Bertram replied that there was no doubt at all that Rhodesia would have to make increasing use of its indigenous labour. He thought Rhodesia did require a further generation of urbanisation and education before the domestic labour force could become fully effective. He was sure that Government was alive to this need, but he was not so sure that many of the Trade Union leaders—particularly the white ones—would willingly accept this. However, there were some very interesting developments in industrial agreements which did point to recognition of this need and acceptance of it by the white artisan.

He hoped too that a broad and liberal application of the new manpower and training legislation would play its part in this field. On taxation, he was compelled to agree entirely with Mr. Rule, subject to the thought that as the economy expanded and as the individual's spending power increased it would be possible to achieve greater flexibility of the tax structure.

Mr. Peter Staub said he wanted to take issue with Mr. Bertram on the question of taxation. The small and new manufacturer he thought, was not as happy with the tax system as Mr. Bertram had suggested. As a new manufacturer starting a business, Mr. Staub had found it necessary to finance his stocks and his customers to a certain extent. Mr. Staub said that the undistributed profits tax was an obstacle preventing the new manufacturer from ploughing back profits into the business and expanding it. He said that while it was true that he could borrow capital, he thought it was much healthier to finance expansion from his own profits.

But if one had to pay both company tax and undistributed profits tax the scope for ploughing back profits was very limited. He asked if Mr. Bertram agreed.

Mr. Bertram said that when he had spoken about the tax position he had been thinking about company taxation. Nevertheless, he thought that Mr. Staub had raised a significant point.

Mr. Wright asked whether decentralisation of industry might be a possible answer to the problem of African housing—particularly in relation to the proposed development of the tribal areas. Housing problems in particular and those of infra-structure would be exacerbated if industry continued to be concentrated in only three or four areas. He asked whether Mr. Bertram agreed that as far as possible industry should be established at the source of raw materials especially where the industry concerned was processing raw materials.

Mr. Bertram said he agreed.

Summing up the discussion, *Mr. Girdlestone* thanked Mr. Bertram for his paper and for drawing attention to a number of issues which he said, were well known but still were frequently overlooked. He stressed the importance of a continued capital inflow and also of knowledge and expertise which was simply not available locally. The second very important point to emerge, he said, was the vital significance which the size of the market played in promoting the growth of industry. He agreed with Mr. Bertram that Rhodesia might be reaching the stage where some re-appraisal of the policy of import substitution might be necessary. Industrialists themselves—who, of course, had wholeheartedly supported the policy of import replacement—were realising now that Rhodesia had perhaps reached the stage where the output of many industries was the input of many others.